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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

June 13, 2008

The Honorable John Nelson, Chair
Joint Legislative Audit Committee

The Honorable Robert Blendu, Vice Chair
Joint Legislative Audit Committee

Dear Representative Nelson and Senator Blendu:

Our Office has recently completed a 6-month followup of the Arizona State Land Department regarding the implementation status of the 15 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2007 (Auditor General Report No. 07-08). As the attached grid indicates:

- 1 has been implemented;
- 12 are in the process of being implemented; and
- 2 have not been implemented.

Our Office will continue to follow up at 6-month intervals with the Department on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Melanie M. Chesney, Director
Performance Audit Division

MMC:Acm
Attachment

cc: Mark Winkleman, Commissioner
Arizona State Land Department

**ARIZONA STATE LAND DEPARTMENT
PERFORMANCE AUDIT AND SUNSET REVIEW
6-Month Follow-Up Report To
Auditor General Report No. 07-08**

FINDING 1: **Department uses comprehensive selling and leasing process, but should further enhance it**

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. The Department should establish time frames or ranges for each step within its state trust land selling and leasing process, monitor the performance of various steps within its process against these time frames or ranges, and analyze any discrepancies when time frames or ranges are not met.	Not Implemented	Although the Department meets regularly to discuss the progress of parcels being planned for sale or lease and establishes goals and timetables for processing steps at these meetings, the Department has not yet established time frames or ranges for each step in the sales and leasing process.

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FINDING 1: Department uses comprehensive selling and leasing process, but should further enhance it (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
2. Once it establishes time frames or ranges and evaluates the timeliness of the steps within the process, the Department should identify steps that could be completed more quickly and modify its process to complete these steps more quickly.	Implementation in Process	Although the Department reported that it has modified some steps within its process to complete them more quickly, auditors could not verify the implementation of this recommendation because the Department did not provide the supporting documentation requested by the auditors.
3. The Department should ensure that site study information is posted on its Web site as soon as studies are completed.	Implementation in Process	Although the Department has hired a Webmaster, which it reports will greatly enhance its ability to post site study information when studies are completed, according to documentation and information provided by the Department for two parcels, it did not post associated site study information on its Web site for approximately 6 and 11 months after site studies were completed.

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FINDING 1: Department uses comprehensive selling and leasing process, but should further enhance it (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
4. The Department should work with the Departments of Administration and Transportation to increase the number of appraisers on state contract that meet the Department's needs by:		
a. Issuing a new or supplemental solicitation and contract, and	Implementation in Process	As of May 2008, the Department of Administration's SPIRIT System Web site indicated that there is an open solicitation for a supplemental appraisal contract.
b. Communicating with all potential bidders to ensure that they understand all of the steps of the State's procurement and contracting process and the types of appraisals the Department needs.	Implemented at 6 Months	

ARIZONA STATE LAND DEPARTMENT

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FINDING 1: Department uses comprehensive selling and leasing process, but should further enhance it (concl'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
<p>5. The Department should establish and implement policies for taking appropriate action when appraisals do not meet department requirements or USPAP standards. These policies should take into account the seriousness and frequency of problems, as well as the enforcement or penalty actions authorized by contract, such as termination of the appraiser's contract with the State and/or withholding payment to recover any costs resulting from nonperformance. The policy should also identify circumstances that would require the Department to report appraisers to the Arizona Board of Appraisal.</p>	<p>Implementation in Process</p>	<p>As of May 2008, the Department had drafted Appraisal Guidelines and Procedures, but has yet to finalize them.</p>
<p>6. The Department should ensure that it documents justification for each appraisal that is obtained from an appraiser that is not on the state-wide contract, as required by department procedures.</p>	<p>Not Implemented</p>	<p>Since the audit was issued, the Department did not document justification for 2 appraisals that were obtained from an appraiser that is not on the state-wide appraisal contract, as required by Department procedures.</p>

ARIZONA STATE LAND DEPARTMENT

PERFORMANCE AUDIT AND SUNSET REVIEW

6-Month Follow-Up Report To Auditor General Report No. 07-08

FINDING 2: Department should further improve state trust land management

Recommendation	Status of Implementing Recommendation	Additional Explanation
1. As Risk Management identifies areas where leases can be improved, the Department should modify its leases to implement these recommendations.	Implementation in Process	The Department reported it is working with Risk Management to identify where leases can be improved.
2. The Department should:		
a. Revise the terms in its grazing and agricultural SLUPs to reflect similar insurance and environmental terms included in the Department's leases; and	Implementation in Process	Although the Department provided auditors with one grazing and one agricultural SLUP that include environmental and insurance terms, auditors will review additional grazing and agricultural SLUPs during the 12-month followup to ensure this recommendation has been fully implemented.
b. Incorporate environmental language into the mineral exploration permits, as well as develop and implement policies and procedures for when to require insurance coverage in these permits.	Implementation in Process	The Department provided auditors with one mineral exploration permit that incorporated environmental language, and is in the process of developing and implementing policies and procedures for when to require insurance coverage in these permits. Auditors plan to review additional mineral exploration permits during the 12-month followup.

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FINDING 2: Department should further improve state trust land management (cont'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
3. The Department should develop and implement policies establishing a risk-based inspection approach that at a minimum:		
a. Requires that all mineral and agricultural leases, SLUPs, and mineral exploration permits receive a field inspection before expiration;	Implementation in Process	The Department reported that its Minerals Section staff were instructed to perform two abandoned mine inspections and two sand and gravel or hard-rock mine inspections per month and that field inspections are now being performed on lands prior to lease issuance and lease expiration. However, the Department has not yet developed and implemented a policy establishing a risk-based inspection approach that requires that all mineral and agricultural leases, SLUPs, and mineral exploration permits receive a field inspection before expiration.

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FINDING 2: Department should further improve state trust land management (concl'd)

Recommendation	Status of Implementing Recommendation	Additional Explanation
b. Requires that all identified high-risk wells receive an inspection in a timely manner; and	Implementation in Process	Although the Department has developed a procedure for well inspections, auditors requested but were not provided with documentation verifying the implementation of this procedure.
c. Specifies the factors that should be considered when determining the number, types, and frequency of well inspections.	Implementation in Process	Although the Department has developed a procedure for well inspections, auditors requested but were not provided with documentation verifying the implementation of this procedure.
4. The Department should cross-train staff to ensure that critical inspections are conducted in a timely manner.	Implementation in Process	The Department reported that it is in the process of cross-training its staff.
5. The Department should establish and implement policies and procedures requiring all field inspections to be adequately documented and tracked.	Implementation in Process	Although the Department reported that each inspection section is developing procedures for documenting and tracking field inspections, it has yet to establish and implement policies requiring all field inspections to be adequately documented and tracked.